



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
KENTON COUNTY CLERK**

Calendar Year 1999

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
KENTON COUNTY
WILLIAM AYLOR, COUNTY CLERK
CALENDAR YEAR 1999
FEE AUDIT

The Auditor of Public Accounts office has completed the audit of the Kenton County Clerk for calendar year 1999. We have issued an unqualified opinion on the financial statements.

Comment And Recommendation

- The County Clerk Should Require Depository Institutions To Pledge Sufficient Securities As Collateral To Protect Deposits

Financial Condition:

The Kenton County Clerk had gross receipts of \$26,275,505 and distributed \$23,826,544 leaving \$2,448,961 in net receipts. Seventy-five percent of net receipts (\$1,873,955) were deposited with the state treasurer to operate the Kenton County Clerk's office. The remaining twenty-five percent of net receipts (\$557,006) was deposited with the state treasurer in the county fund, to be returned to the Kenton County Fiscal Court.

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive

Honorable William Aylor, Kenton County Clerk

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Clerk of Kenton County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 1999. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Clerk and the receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive

Honorable William Aylor, Kenton County Clerk

Members of the Kenton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Require Depository Institutions To Pledge Sufficient Securities As Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated June 27, 2000, on our consideration of the County Clerk's compliance with laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
June 27, 2000

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 1999

Receipts

State Fees For Services:

New Registrants	\$ 1,899	
Reimbursements of Personnel Expenses	42,215	
Sale Of Delinquent Tax Bills	<u>21,138</u>	\$ 65,252

Fiscal Court:

Preparing Tax Bills	\$ 19,069	
Election Postage	2,551	
Board Of Assessments	500	
Election Commissioner	<u>260</u>	22,380

Licenses and Taxes:

Motor Vehicle-		
Licenses and Transfers	\$ 2,441,937	
Usage Tax	11,695,167	
Tangible Personal Property Tax	9,192,094	
Licenses-		
Marriage	54,344	
Occupational	8,179	
City Stickers	143,158	
Deed Transfer Tax	520,293	
Delinquent Taxes	<u>1,114,673</u>	25,169,845

Fees Collected for Services:

Recordings-		
Deeds, Easements, and Contracts	\$ 75,606	
Real Estate Mortgages	256,007	
Chattel Mortgages and Financing Statements	173,087	
Powers of Attorney	5,964	
All Other Recordings	351,034	
Charges for Other Services-		
Candidate Filing Fees	250	
Copywork	<u>32,220</u>	894,168

Other:

Postage	\$ 81,751	
Miscellaneous	<u>12,154</u>	93,905

Interest Earned		<u>29,955</u>
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Total Receipts		\$ 26,275,505
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KENTON COUNTY
 WILLIAM AYLOR, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 Calendar Year 1999
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,825,466

Usage Tax 11,337,564

Tangible Personal Property Tax 3,082,356

Licenses-

Delinquent Tax 186,936

Legal Process Tax 126,707

Candidate Filing Fees 90 \$ 16,559,119

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 929,257

Delinquent Tax 93,387

Deed Transfer Tax 494,277

Occupational Licenses 6,723 1,523,644

Payments to Other Districts:

Tangible Personal Property Tax \$ 4,833,247

Delinquent Tax 540,153 5,373,400

Payments to Sheriff

29,164

Payments to County Attorney

185,387

Other Charges-

Printing Tax Bills \$ 3,284

City Stickers 127,427

Miscellaneous 25,119 155,830

Total Disbursements \$ 23,826,544

Net Receipts \$ 2,448,961

Payments to State Treasurer:

75% Operating Fund \$ 1,873,955

25% County Fund 575,006 2,448,961

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
 WILLIAM AYLROR, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
 OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND
WITH THE STATE TREASURER

Calendar Year 1999

	75% Operating Fund	25% County Fund	Totals
	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
Fund Balance - January 1, 1999	\$	\$	\$
 <u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	1,873,955		1,873,955
Fees Paid to State - County Funds (25%)		575,006	575,006
	<u>1,873,955</u>	<u>575,006</u>	<u>2,448,961</u>
Total Funds Available	\$ 1,873,955	\$ 575,006	\$ 2,448,961
 <u>Disbursements</u>			
Kenton County Fiscal Court	\$	\$ 575,006	\$ 575,006
Personnel Services-			
Clerk's Salary	78,395		78,395
Clerk's Expense Allowance	3,600		3,600
Deputies Salaries	1,073,273		1,073,273
Employee Benefits-			
Employer's Share Social Security	83,791		83,791
Employer's Share Retirement	86,370		86,370
Employer's Paid Health Insurance	217,093		217,093
Contracted Services-			
Printing and Binding	31,762		31,762
Materials and Supplies-			
Office Supplies	37,934		37,934
Other Charges-			
Conventions and Travel	2,053		2,053
Dues	3,550		3,550
Postage	23,516		23,516
Delivery Service	5,011		5,011
Telephone	25,539		25,539
Parking	13,860		13,860
Equipment Service and Supplies	21,393		21,393
Equipment Rental	1,354		1,354
Maps	4,539		4,539

KENTON COUNTY
WILLIAM AYLOE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND
WITH THE STATE TREASURER
Calendar Year 1999
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursement (Continued)</u>			
Other Charges (Continued)			
Insurance-			
Liability	\$ 13,878	\$	\$ 13,878
Unemployment	1,206		1,206
Office Improvements	15,345		15,345
Miscellaneous	654		654
Capital Outlay-			
Office Equipment	41,263		41,263
Office Furniture	3,487		3,487
Total Disbursements	<u>\$ 1,788,866</u>	<u>\$ 575,006</u>	<u>\$ 2,363,872</u>
Fund Balance - December 31, 1999	<u>\$ 85,089</u>	<u>\$ 0</u>	<u>\$ 85,089</u>

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
WILLIAM AYLOR, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KENTON COUNTY
 WILLIAM AYLROR, COUNTY CLERK
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 1999
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 13, 1999, the uncollateralized amount on deposit was \$267,612. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 13, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,400,000
Uncollateralized and uninsured	<u>267,612</u>
Total	<u>\$ 1,667,612</u>

COMMENT AND RECOMMENDATION

KENTON COUNTY
WILLIAM AYLROR, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 1999

NONCOMPLIANCES

The County Clerk Should Require Depository Institutions To Pledge Sufficient Securities As Collateral To Protect Deposits

The County Clerk's deposits were not adequately secured by \$267,612 as of April 13, 1999. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. We recommend that the County Clerk require depository institutions to pledge sufficient securities as collateral to protect deposits at all times.

County Clerk's Response:

I have been assured by First National Bank that a new method of pledging securities will mean that this problem will not develop again.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Honorable William Aylor, Kenton County Clerk
Members of the Kenton County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the Kenton County Clerk as of December 31, 1999, and have issued our report thereon dated June 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Sheriff's financial statements as of December 31, 1999, are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Honorable William Aylor, Kenton County Clerk
Members of the Kenton County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 27, 2000

